



APPRAISAL BULLETIN

Volume XXVIII

© by ROY WENZLICK RESEARCH CORP., 1959

Number 58

Real Estate Economists, Appraisers and Counselors

SURVEY OF URBAN RENEWAL LAND DISPOSITION

IN making market analyses and reuse appraisals for urban renewal agencies we have found a dearth of information on disposition of cleared land. So that our firm and others might learn more about the experience of urban renewal agencies in disposing of their land, we have surveyed those agencies which were reported to have disposed of all or part of their land as of June 30, 1959. The response was very gratifying for a survey of this type. Fifty-five percent of the questionnaires were answered.

The problem that has been debated a great deal, recently, is whether the projects should be sold by negotiation with the redeveloper or by competitive bidding. Most of the cities reporting, however, showed that their sales were established through negotiation. The following table shows the number of parcels reported as disposed by negotiation or competitive bidding:

TYPE OF SALE

Land Use	Fixed Price	Negotiation	Competitive Bid	Combination of Bidding and Negotiation
Residential	2	19	11	4
Commercial	0	33	5	2
Industrial	0	14	35 (30 in Chicago)	1
Public	3	30	0	1
Semipublic	2	14	0	3
	7	110	51	11

If Chicago's record is taken out of the summary, there would be 104 sales by negotiation and 21 by competitive bidding. Since it is not possible to have competitive bidding on land sold for public use, it may be better to subtract this figure, too, leaving 74 parcels sold by negotiation. This difference would be increased by including the combined method of sale with negotiation. Most of the fixed price sales were based on FHA appraisals.

In general, HHFA requirements are that disposition be by open and competitive bidding. This procedure is legally mandatory in many States. HHFA will concur in land disposition under noncompetitive conditions for the following four types of project land:

1. "Land to be redeveloped for a public or nonprofit institutional use.

2. "Land which has special adaptability and value for the use of a specific private redeveloper.
3. "Land which, in the interest of the overall project undertaking, can best be sold by negotiation to a redeveloper from whom land is to be acquired for the project.
4. "Land which can best be offered for sale or lease at predetermined prices, such as single-family residential lots to be made available individually."

In the light of the predominance of sale by negotiation, comments from two cities are interesting:

Johnson City, Tennessee: "Property will be offered to the general public on September 21, 1959, on a competitive basis and no sales will be executed until October 1, 1959, giving all persons an equal opportunity to bid on property desired. After the date of October 1, 1959, all sales will be on a first-come, first-served basis."

Somerville, Massachusetts: "Seven parcels, ranging from 35,000 to 60,000 square feet, are still available. All parcels were open to competitive bidding. No results were obtained and we are now resorting to negotiation."

John R. Searles, Jr., Executive Director of the District of Columbia Redevelopment Land Agency and President of the National Association of Housing and Redevelopment Officials, is quoted by The Appraiser, May 1959, as follows:

"We were originally advised that the area might bring \$4 per square foot. Webb & Knapp represented to us that there were certain special considerations, including unusually high construction costs without any corresponding increase in income, which would make this price excessive. Based on this and other evidence, the price was reduced to \$2.50. At a recent public hearing a prominent local developer offered \$3 a foot. Our agency was unwilling to discard the negotiations of five years and jeopardize a very substantial investment made by Webb & Knapp, but it did ask Webb & Knapp to agree to raise its price if the FHA, which will insure the mortgage (in conjunction with an apartment project) will concur."

Because of the practical problem of the availability of few qualified redevelopers, HHFA may approve negotiation, through a "memorandum of understanding," an offer of a specified contract without competitive bidding.

The urban renewal agencies, in selling the cleared land subject to the reuse restrictions, want to sell the land as soon as possible, and still get the highest possible price. Thus, there is a conflict between negotiation and competitive bidding. The latter probably assures the highest price for the land, while negotiation may speed things up. Leonard L. Farber commenting on this problem said, "The biggest problem you are going to have in interesting competent and experienced developers is in requiring that such sites be sold at auction, unless you limit bidding to experienced shopping center developers. We don't

mind bidding against professionals. We do know, however, that there are a large number of inexperienced and uninformed people who get blinded by the names of interested national chain stores, and who believe that the road to shopping center development is paved with gold."

Would this indicate that negotiated sales would fall into the hands of a few redevelopers? Our questionnaire asked whether the land was sold to local or out-of-town developers. Sixteen cities reported that land was sold only to local developers. Eleven reported that both local and out-of-town developers were sold cleared land. Only one city reported land sold only to an out-of-town developer. This would seem to indicate a dispersion rather than a concentration of redevelopers. However, a better check would be the dollar value of business done by various redevelopers. This is information which we, unfortunately, do not have.

What can happen under negotiated contracts, however, is the recent exposure of shenanigans in New York City. In September, Architectural Forum recounted a list of dubious incidents in New York City. "On two occasions, reputable, nationally known builders and redevelopers were dangled along with some promises of participating in the program, only to find, eventually, that the prize went to a small, obscure outfit or carried impossible terms. In the first instance, the losing builder was privately approached by the winner to become an associate, who would do most of the work on the project while the sponsor would take a profit for holding the 'franchise.' In the second, a developer found that a promised contract for taking over a sour project from a defaulting sponsor was repeatedly delayed while a fixed-sum settlement to be paid to the original stockholders was successively upped, \$100,000 at a time. The developer bowed out."

One of the dubious policies pursued by the New York Slum Clearance Committee has been its approving tentatively, a project sponsor prior to calling for public bids. Although any builder is free to bid at the formal auction, no one but the predesignated sponsor has bid in 14 official auctions.

Our survey of urban renewal agencies has revealed a wide variation in the prices on land sales. A table of the range of prices per square foot and the median price for each type of use is shown here:

LAND SALES PRICE PER SQUARE FOOT

Land Use	Range		Median
	Low	High	
Residential	\$.18	\$ 2.72	\$.64
Commercial	.50	18.69	1.30
Industrial	.15	3.75*	2.18*
	.15	2.00**	.64**
Public	.00	13.00	.85
Semipublic	.20	4.50	.63

*Chicago parcels included

**Chicago omitted

The Chicago Land Clearance Commission has been able to sell 30 parcels for industrial use through competitive bidding at prices from \$2.10 to \$3.75. Because of Chicago's favorable industrial location other cities have been unable to match these sales.

In answering the question, "Have your sites been developed?" most cities replied yes, or partially completed. Only seven answered negatively. How were these sites developed? The following table shows the cities reporting each type of use developed:

NEW LAND USE DEVELOPED

<u>Land Use</u>	<u>Cities Reporting*</u>
1- to 4-family residence	7
Multifamily apartment (low rise)	5
Multifamily apartment (high rise)	9
Commercial	14
Light industrial	12
Heavy industrial	1
Parks and recreation	9
Schools, public buildings, hospitals, churches, and public parking	10

*Total of 33 cities reporting

The fine administration of the urban renewal program reveals itself by the lack of scandals with so many projects disposed through negotiation rather than by competitive bidding. The comment by Richard L. Steiner, Director of the Baltimore Urban Renewal and Housing Agency, and formerly Commissioner of the Urban Renewal Administration, in the January 1959 Appraisal Journal, is appropriate in conclusion. "The Urban Renewal Administration's willingness to approve negotiated disposition in certain cases of necessity demands a heavy reliance on appraisals. As Administrator of this program, I must be seriously concerned as to whether such reliance is fully justified, and in raising this question I cannot ignore the facts that we are dealing here with a new kind of appraisal problem, that the number of really good appraisers is limited, and that with all of the public acquisition programs and general real estate activity in motion today appraisers are hard pressed and busy -- perhaps too busy."

Our experience in making appraisals and market analyses for urban renewal agencies has led us to believe that this program for clearing slums and selling the land to private enterprise for redevelopment is successful.

